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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000542

SIPDIS

STATE FOR EAP/BCLTV, EB
COMMERCE FOR ITA JEAN KELLY
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USPACOM FOR FPA

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SUBJECT: FREED PRIVATE BANKS WARM UP

REF: RANGOON 174 AND PREVIOUS

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.4 (B,D)

1. (C) Summary: Three of Burma's private banks, re-opened under tight new regulations in February, seem to be surviving nicely in the new environment. With deposits reaching pre-crash levels, the banks are set to start issuing loans for the first time since February 2003. However, this bright spot is a mere candle in Burma's long economic night, as the largest private banks (holding 65 percent of pre-crash deposits) remain closed indefinitely. End summary.

If You Open, It Will Come

2. (SBU) Much to the relief of the three newly re-opened private banks, some customers have returned bringing with them significant deposits. On the other side of the ledger, withdrawals have stabilized. The authorities allowed these three banks, Kanbawza (KBZ), Myanmar Universal (MUB), and Myanmar Oriental (MOB), to re-open on February 3 almost 12-months after the private banking sector collapsed following a massive run. As a condition of their re-opening, the government imposed several new and quite restrictive regulations (reftel), including a ban on credit cards and a "temporary" cap on deposits at seven-times paid-in capital. Two other private banks, the largest by deposits and assets pre-crash, Asia Wealth (AWB) and Yoma, remain shuttered with no sign of an imminent change. The last of the "big six," Myanmar Mayflower, the fourth largest pre-crash, also remains under wraps (and ostensibly under investigation, alongside AWB, for money laundering).

3. (C) Since being freed to operate, KBZ and MOB have been receiving more deposits than expected. Two KBZ officials told us that they were nearly up against the deposit ceiling -- a predicament they hadn't expected for another several months. Other banking sources estimated that MOB would hit its cap sometime in June. There is no word on the status of MUB's deposit inflows. The new deposits are likely from traders who had been forced during the period of banking shutdown to send and receive domestic remittances via the informal hundi network. This is a widespread and oft-used system, though it is rather risky and has trouble handling extremely large transactions.

4. (C) To address this potential deposit cap problem, the banks have two choices: increase their capital or, in traditional Burmese fashion, ignore the new rule. According to banking sources, the re-opened banks have not yet been audited by GOB authorities to ensure compliance with the new restrictions, though an oversight committee remains in place. Another factor that will encourage scoffing the law is the reluctance of owners to pony up more cash. Because of a stagnant business environment, few in Burma are flush with capital these days. Also, the banks are still in precarious situations and are thus not yet low-risk investments.

Let the Lending Begin

5. (SBU) Another positive sign is the GOB's approval of new lending by the three re-opened banks. Though this right was ostensibly given back in February, banking officials told us it was not until April 6th that authorities actually gave the green light. Per the new regulations, loans may not exceed 80 percent of deposits.

Comment: A Drop in the Bucket

6. (C) When new loans make it into the economy, it will help lubricate a machine that's been cash-starved for more than a year. Likewise, increasing deposits will help keep domestic commerce above water. However, we remain skeptical that this "soft" re-opening of the private banking sector will energize the economy much. The reason is the relatively small contribution KBZ, MUB, and MOB make to the country's financial condition. Look at the numbers: KBZ, the largest by far of the three liberated banks, has only 6.2 billion kyat (about US\$7.5 million) in paid-up capital. This means its maximum deposits are \$52.5 million and maximum new loans are US\$42 million. For comparison sake, at the end of 2002

(just before the crisis) Burma's private banks reported about US\$625 million (at the current 820 kyat/\$ rate) in deposits and outstanding loans of about US\$430 million. End comment.
Martinez